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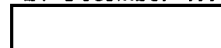


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FRANCE - MIDDLE EAST

French Prime Minister Jacques Chirac's arrival in Iran today is the latest in a series of French high-level visits to the oil-producing countries.

The French diplomatic and economic offensive in the Middle East is aimed primarily at securing contracts and loans to offset the substantial balance-of-payments deficit Paris expects to incur this year. France also hopes to reinforce its carefully nurtured image of being the Arabs' champion in Western Europe and to win support for the tripartite energy conference proposed by President Giscard and now backed by the EC and the US. So far, Paris has reason to be pleased with the results of its bilateral diplomacy.

In Tehran, Chirac is expected to put the finishing touches on a major industrial cooperation program initiated last June. It will include up to five nuclear power stations, a nuclear research and experimental center, and, possibly, advanced fast-breeder technology plants and nuclear-propelled submarines for the Iranian navy. Iran will deposit \$1 billion in advance payment for development projects amounting to \$5 billion over the next ten years. Tehran has already given its backing to the tripartite energy conference.

Earlier this month the French Prime Minister was in Iraq, a visit that was treated by Baghdad as one of the major political events of the year. Chirac received Iraqi endorsement of Giscard's tripartite conference and substantial economic sales agreements. Reports that Iraq had granted France a \$1-billion loan have been denied by French officials, who claim that such an agreement was reached only in principle. French sources claim oil supplies were not discussed, but this is the primary reason Paris is courting the Arab world.

Interior Minister Poniatowski visited Algeria in early December to prepare the way for Giscard's planned visit there next March. Poniatowski's negotiations concentrated on problems that have plagued the special re-

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lationship between the two countries. His visit appears to have been an important step toward improving bilateral relations. Algeria did not oppose the tripartite conference in principle, but continued to stress its desire to include other raw materials on the agenda. Poniatowski conceded that France might be willing to go along.

French Secretary of State for Foreign Commerce Se-gard led a trade mission to Qatar last week. The Qataris offered France a \$150-million loan at "slightly below" the commercial rate of interest. The loan, which may be the largest single Qatari loan ever granted, was offered at least in part as a reward for France's pro-Arab policy. An economic cooperation agreement also was signed.

Foreign Minister Sauvagnargues began a five-day visit to Cairo on December 19. He is expected to brief the Egyptians on the recent EC summit, energy problems, and the Arab-EC dialogue--currently bogged down over the question of PLO representation.

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PERU

Lima has reacted angrily to the US government's disposition of \$76 million paid by Peru last February as compensation for US companies expropriated since 1968, even though both countries agreed the US would distribute the funds.

Specifically, Peru is objecting to the compensation of Exxon for the government's takeover of the International Petroleum Company (IPC) six days after the military took power in October 1968. The government has consistently maintained that the IPC matter is closed and that it was not included in the February agreement.

In an effort to minimize the embarrassment that it felt would develop once the distribution of the funds became known, the Peruvian government issued a strongly worded communiqué on Wednesday defending its position on the IPC matter. In addition, the government-controlled news media have accused the US of breaching the spirit, if not the letter, of the February agreement. According to the US embassy, Peru may be instituting legal action against the IPC to collect "back taxes." Such action may be contrary to the terms of the agreement.

Recent developments within Peru, coupled with various strains in relations with the US, appear to have heightened Lima's sensitivity on this issue. One source of government sensitivity is the recent controversy over a loan it obtained from Japan to finance the trans-Andean oil pipeline. When terms of that agreement were made public, critics charged the government was "selling out" Peru's sovereignty, and certain commentators went so far as to compare the government's behavior with that of the previous civilian government in the IPC affair.

In addition, political tensions in Lima are particularly high these days, since annual military retirement and reassignment plans are being completed. At the same time, popular disaffection with the government is growing more serious.

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To some Peruvian leaders, the timing of the US move is seen as part of a general effort to "destabilize" the regime of President Velasco. Many of these officials are convinced that Washington remains hostile to their government and that the CIA is involved in Peru's internal affairs. Peruvian officials also are upset by what they view as an unsatisfactory response to their long-standing requests for additional US armaments.

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ETHIOPIA

The ruling military council yesterday announced the adoption of "socialism" as the philosophy of the Ethiopian revolution.

The announcement, according to preliminary information, is essentially a general statement of intentions and not an outline of specific programs. The new policy calls for greater governmental intervention in the economy and expansion of social services. All property basic to economic growth is to be brought under government control, and labor is to be subject to government directives to "enhance its productivity." The government also promises to assist cooperatives, support land reform, and make basic education accessible to all Ethiopians. Foreign capital and technology may participate in the economy, provided they are judged to be beneficial for society and to promote economic growth.

The adoption of a "socialist philosophy" is an attempt by the council to identify with the aspirations of Ethiopians for improved living standards and to give at least the appearance of an ideological foundation for the changes the council is promoting in society. The council probably also hopes that its avowal of socialism will place Ethiopia in the mainstream of African thinking as well as help to emphasize the government's sharp break with the feudal regime of Haile Selassie.

There will probably be much more debate--and delay--before the council decides on the means to implement its new philosophy. In past discussions of socialism, the council has shown uncertainty about the meaning and content of the term; council members differ on what constitutes "true" socialism.

The council also announced that a single "progressive" national political party will be organized. The council may establish a rudimentary organization in Addis Ababa, but any attempt to create a national party will be impeded by the country's political, ethnic, and geographic diversity.

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The adoption of socialism does not seem to presage any sudden shifts in foreign policy. The council apparently remains reluctant to jeopardize seriously its relations with Washington, and continues to value US military and economic assistance. The defense minister and a high Foreign Ministry officer recently told US officials that the council wants to maintain close and friendly relations with the US. Both claimed to be expressing the council's official policy.

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IRAN

The Shah warned Western governments Thursday that any increase in the price of gold would result in a sharp increase in oil prices.

His remarks apparently stem from a misapprehension that the Martinique decision to allow countries to value official gold holdings at free-market prices would cause the value of the world's currencies, especially the dollar, to decline. He apparently thinks that such a decline would erode the purchasing power of Iran's earnings from oil--particularly since the price of oil is generally expressed in terms of dollars--and that it would threaten his ambitious industrialization, development, and armaments programs. He apparently did not have any ulterior political motives in making the remarks.

The concern expressed by the Shah over the relationship between the purchasing power of oil earnings and the price of gold is unwarranted, because there is little direct link between the price of gold and the real value of Iran's reserves. The purchasing power of Iran's earnings is determined by the relationship of the dollar to other currencies and the cost of goods and services which it imports, not by the price of a commodity such as gold that Iran essentially does not import.

The Shah's comments, although misguided, do reflect the widespread concern of high-level officials in oil-producing countries about inflation in the West.

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MALAYSIA

Student unrest has subsided. Nevertheless, Malay student activism is likely to become an important factor in Malaysian politics.

Boycotts of classes continue, but university officials expect that the majority of students will take examinations in mid-January. Some preliminary exams were held off campus this week, with only a negligible number of absentees.

Kuala Lumpur's uncompromising stand and the specter of exams have brought the government a momentary respite, but it has as yet no long-term answer to campus unrest. Its attempt to pin the blame on an allegedly Communist-influenced Chinese student organization is unconvincing, because the demonstrations were clearly led by Malay activists.

The Razak administration's pattern of brushing aside general student impatience over its performance, as well as grievances over government extravagance and aloofness, may well invite a resumption of campus disorders.

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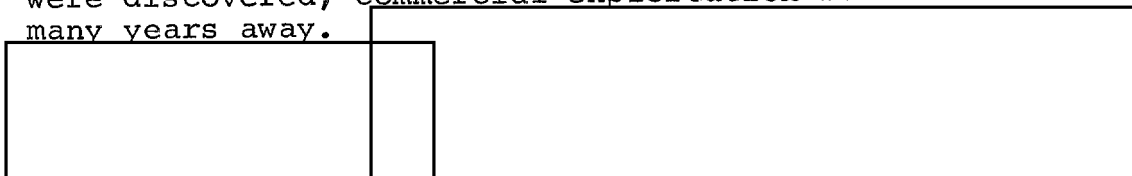
NORTH VIETNAM

Hanoi is continuing to search for oil along the North Vietnamese coast.



Shortly after the cease-fire, Hanoi showed renewed interest in offshore oil exploration in the Gulf of Tonkin. The North Vietnamese engaged in extensive negotiations with the Japanese and Italians on exploration and development of potential oil deposits, but no agreements were concluded.

North Vietnam has no significant domestic petroleum production capability and must rely on the USSR and China for its supplies. Even if sizable oil deposits were discovered, commercial exploitation would still be many years away.



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BURMA

Rangoon has regained a semblance of normality in the aftermath of the antigovernment riots last week. Martial law remains in effect, but the military presence in the city has been reduced and most business activity has resumed.

Although the immediate crisis appears to have passed, tensions are not far below the surface, and renewed disturbances are possible at any time. New sources of discontent may arise from the fact that well over a thousand students and some Buddhist monks remain in custody, and that some of the students arrested during the disorders are children of high-level government officials.

The government has announced that a special session of the People's Assembly--its rubber-stamp legislature--will be held next month, apparently to deal with problems resulting from the riots. The session may be used to make some changes in the composition of the regime.



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FOR THE RECORD

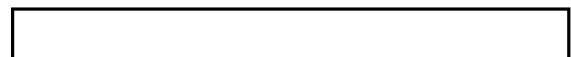
Cyprus: Greek Cypriot negotiator Clerides and Turkish Cypriot negotiator Denktash have agreed on all but one point under discussion, according to a statement issued at the close of their meeting yesterday. They hope to resolve the difference early next week. Denktash noted that the Turkish Cypriot side was satisfied Clerides had the authority and mandate to resume the talks. Following Makarios' return to Cyprus, Denktash had been questioning Clerides' authority to negotiate. Ankara also adopted a positive tone yesterday: the Foreign Ministry professed to have received a "strong impression" that Greek Cypriots are prepared to negotiate on the basis of a federal system for the island.

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